



AUDITOR-GENERAL  
SOUTH AFRICA

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Auditor-General of South Africa

# UMzimkhulu Local Municipality - audit report 2015-16

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on UMzimkhulu Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I audited the financial statements of the UMzimkhulu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the UMzimkhulu Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Material impairments**

7. Trade and other receivables from exchange and non-exchange transactions as disclosed in note 5 to the financial statements was impaired by R2,86 million (2014-15: R2,85 million). This was as a result of an annual review of the collectability of consumer debts.

## **Additional matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

9. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
13. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objective. I further performed tests to

determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings in respect of the selected objective are as follows:

#### Basic service delivery

#### Usefulness of reported performance information

#### Measurability of indicators and targets

#### Performance targets not measurable and indicators not verifiable

16. The FMPPI requires that performance targets should be measurable. We could not measure the required performance for 27% of the targets.
17. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 27% of indicators were not verifiable.

#### Relevance of indicators

#### Performance indicators not relevant

18. A total of 47% of indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five year integrated development plan, as required by the FMPPI.

#### Reliability of reported performance information

19. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided.

### **Additional matters**

20. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### Achievement of planned targets

21. The annual performance report on pages x to x and x to x which includes information on the achievement of the planned targets for the year should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objective reported in paragraphs 16 to 19 of this report.

## Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the basic service delivery objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Strategic planning and performance management

24. Revisions to the service delivery and budget implementation plan were not approved by the council as required by section 54(1)(c) of the MFMA.
25. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, measurement, and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and Municipal Planning and Performance Management Regulation 7.

## Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
27. The oversight report adopted by the council on the 2014-15 annual report was not made public, as required by section 129(3) of the MFMA.

## **Internal control**

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

29. Leadership did not adequately oversee and monitor the internal controls to ensure that effective measures were taken to address accurate and reliable performance information and compliance with key legislation relating to strategic and performance management.

## Financial and performance management

30. Checklists were not in place to monitor compliance with legislation relating to strategic planning and performance management and the annual financial statements.
31. Management did not develop technical indicator descriptions and pre-determined minimum portfolio of evidence to support accurate and reliable reporting of performance information.

  
Pietermaritzburg  
30 November 2016



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